

Arms-Length Foundations: 2020-21 update

Purpose

- This is an annual update on the funds held within Arms-Length Foundations (ALFs), along with details of the inflow and outflow of funds for 2020-21, to provide assurance for the safeguarding of public funds donated by colleges.

Recommendations

- The Committee is invited to note this update.

Financial implications

- There are no running cost implications arising from this paper not already allowed for within the Council's current budgets and plans.

Arms-Length Foundations: 2020-21 update

Purpose

1. To provide an annual update on the funds held within Arm's Length Foundations (ALFs), along with details of the inflow and outflow of funds for 2020-21, in order to provide assurance regarding the safeguarding of public funds donated by colleges.

Background

2. ALFs were established to mitigate the impact of reclassification in relation to cash reserves and future surpluses. Colleges had the option of establishing a local ALF or participating in the sector 'umbrella' ALF (Scottish Colleges Foundation).

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3. Colleges donated a total of £99 million to ALFs before 31 March 2014. This includes £25.3 million donated to Scottish Colleges Foundation. The amounts donated at the end of 2013-14 represented cash balances accumulated by colleges over a large number of years.
4. It is critical that SFC maintains a close overview of ALFs given the magnitude of public funds donated to ALFs and the levels of scrutiny in this area, particularly from the Scottish Parliament Public Audit Committee. The Council's Finance Committee receives annual updates on funds held within ALFs along with details of the inflow and outflow of funds, as a means of receiving assurance for the stewardship of public funds donated by colleges.

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5. The report also provides an update on the inflow and outflow of funds during the financial year to 31 March 2022, based on information provided by colleges on grants awarded during the year ended 31 March 2022. We do not have information available on the non-college transactions (e.g. investment income, governance costs) for 2021-22 as these are only available from the published financial statements.
6. It should be emphasised that ALFs are charitable organisations and their independent nature means that they are only accountable to the Office of the Scottish Charity Regulator (OSCR) and Companies House, where the legal form of the ALF is a company limited by guarantee. Colleges are required to submit funding applications to ALFs in order to access funds, however, there is no guarantee that these applications will be successful. Nevertheless, existing legislation governing charities, companies and contracts, as well as OSCR's

wide-ranging powers in the supervision of charities, provide a series of safeguards in terms of the governance and application of these funds.

Analysis of ALFs' financial statements and cash flows

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7. The summary movements for 2021-22 are forecast only, based on information collated from colleges (see paragraph 6 above). However, based on these figures, ALF balances were expected to reduce to £18.5 million by 31 March 2022.
8. It is important to note that the vast majority of funds provided from ALFs have been directed to entirely college-related activities, with a very small balance being used for projects in which colleges are working in partnership with other organisations.

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Independence of ALFs

9. Auditors will continue to look at the boundaries between colleges and ALFs on an annual basis. Consolidation would see reserves being treated as still belonging to the college for accounting purposes where they would effectively be frozen. Auditors have in the past drawn attention to possible threats to independence e.g. through the 'single beneficiary' issue whereby funds are only seen to flow between the college and ALF over a period of years.
10. Feedback from auditors also highlighted that the 'single beneficiary' issue may be addressed through ALFs providing funding to individual students e.g. through scholarship funds. External fundraising activity would also address the issue of funds only flowing between the college and ALF and would have the benefit of generating additional funds for the college sector.
11. We understand that auditors have fewer concerns regarding the independence of the umbrella ALF on the grounds of practical difficulties of consolidation and given that the ALF's trustees are not associated with one college.
12. SFC has not been made aware of any concerns raised by colleges' external auditors in respect of consolidation of ALFs' results within colleges' 2020-21 financial statements. No ALFs have been consolidated into college accounts.

Risk assessment

13. The priority risks associated with this paper concern the safeguarding of public funds within ALFs and consolidation of the results of ALFs and colleges.

14. The 2014 Turcan Connell review of ALFs' constitutions and donation agreements provided substantial assurance regarding the safeguarding of public funds donated by colleges to ALFs. The Council will continue to work with colleges, auditors and Audit Scotland to address any issues around the consolidation of ALFs that may arise in future.

Equality and diversity assessment

15. There are no equality and diversity issues associated with this paper.

Financial implications

16. There are no running cost implications arising from this paper not already allowed for within the Council's current budgets and plans.

Recommendations

17. The Committee is invited to **note** this update.

Publication

18. This paper will be published on the Council website in edited format as it contains information which will be withheld under the Freedom of Information (Scotland) Act 2002, Section 33: Commercial interests and the economy.

Further information

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